

LYNN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of
Lynn, Massachusetts)

Financial Statements,
Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position	6
Statement of Changes in Fiduciary Net Position	7
Notes to Financial Statements	8
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Changes in the Net Pension Liability	18
Schedules of Net Pension Liability, Contributions, and Investment Returns	19
OTHER INFORMATION	
Independent Auditors' Report	20
Schedule of Employer Allocations	22
Schedule of Pension Amounts by Employer	23

INDEPENDENT AUDITORS' REPORT

To the Honorable Lynn Contributory Retirement Board
Lynn Contributory Retirement System
City of Lynn, Massachusetts

Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

We have audited the accompanying financial statements of the Lynn Contributory Retirement System (the System), a component unit of the City of Lynn, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The System's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

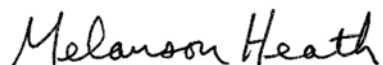
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of December 31, 2017, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.



October 18, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lynn Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2017.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: (1) fund financial statements and (2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position presents information on the System's assets and liabilities and the resulting net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, and receivables.

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2017. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

The Notes to Financial Statements provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

The Required Supplementary Information includes this Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position restricted for pensions was \$356,991,815 at December 31, 2017.
- The System's net position increased by \$50,678,321, which is primarily due to favorable returns on investments and related income.

- Employer and employee contributions to the plan were \$39,608,985, which represents a \$1,226,706, or 3.20%, increase over the prior year. The employer share of contributions represents 79.49% of the total contributions.
- Benefits paid to plan participants increased by \$2,077,316, or 5.71%, totaling \$38,441,965 during 2017. The increase is largely attributable to cost-of-living adjustment (COLA) increases paid to beneficiaries as well as the pool of retirees receiving pension benefits increasing over the prior year.

C. FINANCIAL STATEMENT ANALYSIS

The following is a summary of financial statement data for the current and prior fiscal years:

	<u>FIDUCIARY NET POSITION</u>	
	<u>2017</u>	<u>2016</u>
Assets		
Cash and receivables	\$ 4,011,254	\$ 5,917,734
Investments	<u>352,980,561</u>	<u>300,396,320</u>
Total assets	356,991,815	306,314,054
Liabilities		
Accrued payroll and other	<u>-</u>	<u>560</u>
Net Position	<u>\$ 356,991,815</u>	<u>\$ 306,313,494</u>

	<u>CHANGES IN FIDUCIARY NET POSITION</u>	
	<u>2017</u>	<u>2016</u>
Additions		
Contributions	\$ 40,214,408	\$ 39,916,664
Investment Income, net	<u>49,436,046</u>	<u>20,154,390</u>
Total additions	89,650,454	60,071,054
Deductions		
Benefit payments	38,441,965	36,364,649
Other	<u>530,168</u>	<u>550,376</u>
Total deductions	<u>38,972,133</u>	<u>36,915,025</u>
Changes in net position	50,678,321	23,156,029
Net position - beginning of year	<u>306,313,494</u>	<u>283,157,465</u>
Net position - end of year	<u>\$ 356,991,815</u>	<u>\$ 306,313,494</u>

The System's total assets as of December 31, 2017 were \$356,991,815 and were mostly comprised of cash and investments. Total assets increased \$50,678,321, or 16.54% from the prior year, primarily due to the favorable returns on investments and related income.

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 cost-of-living adjustments (COLA) and through earnings on investments. Contributions and net investment gain for calendar year 2017 resulted in a net gain of \$89,650,454. Employer's contributions increased by \$1,229,471. The System had net investment gain of \$49,436,046 versus a gain of \$20,154,390 in 2016. This increase was due to favorable market conditions during 2017.

The primary deductions of the System include the payment of pension benefits to plan members and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2017 were \$38,972,133, which represents an increase of 5.28% over deductions of \$36,915,025 in 2016. The payment of pension benefits increased by \$2,077,316 or 5.71% over the previous year. The increase in these expenses are due to 2017 cost-of-living adjustments, as well as the pool of retirees receiving benefits increasing over the prior year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Lynn Contributory Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Lynn Contributory Retirement System
3 City Hall Square
Lynn, MA 01901

LYNN CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the City of Lynn, Massachusetts)
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017

Assets

Cash and short-term investments	\$ 2,208,487
Investments:	
State Investment Pool (PRIT)	337,432,221
Pooled Real Estate Funds	14,506,217
Pooled Alternative Investments	1,042,123
Accounts receivable	<u>1,802,767</u>
Total assets	<u><u>\$ 356,991,815</u></u>

Net Position

Net position restricted for pensions	<u>356,991,815</u>
Total net position	<u><u>\$ 356,991,815</u></u>

The accompanying notes are an integral part of these financial statements.

LYNN CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the City of Lynn, Massachusetts)
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

Additions

Contributions:	
Employers	\$ 31,966,245
Plan members	7,642,740
Other systems and Commonwealth of Massachusetts	510,265
Other	<u>95,158</u>
Total contributions	40,214,408
Investment income:	
Appreciation in fair value of investments	51,162,037
Less: management fees	<u>(1,725,991)</u>
Net investment gain	<u>49,436,046</u>
Total additions	89,650,454

Deductions

Benefit payments to plan members and beneficiaries	38,441,965
Refunds to plan members	229,238
Transfers to other systems	81,765
Administrative expenses	<u>219,165</u>
Total deductions	<u>38,972,133</u>
Net increase	50,678,321

Net position restricted for pensions

Beginning of year	<u>306,313,494</u>
End of year	<u><u>\$ 356,991,815</u></u>

The accompanying notes are an integral part of these financial statements.

LYNN CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements

1. Description of Plan

Substantially all employees of the City of Lynn (except teachers and administrators under contract employed by the School Department), Lynn Housing Authority, and Lynn Water & Sewer Commission are members of the Lynn Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The Lynn Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following as of December 31, 2017:

Retirees and beneficiaries receiving benefits	1,183
Terminated plan members entitled to but not yet receiving benefits	224
Active plan members	<u>1,342</u>
Total	<u>2,749</u>
Number of participating employers	3

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the System. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of a Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or

involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial statements. The System is governed by a five-member board. The five members include two appointed by the City, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of PERAC.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2017 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the City of Lynn, Lynn Housing Authority, and Lynn Water & Sewer Commission employees are recognized as revenue in the period in which employees provide services to the City.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 16.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have policies for custodial credit risk.

As of December 31, 2017, \$2,003,217 of the System's bank balances of \$2,375,326 were exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name. However, of the System's total exposed balance, the entirety was invested in the Massachusetts Pension Reserves Investment Trust (PRIT or State Investment Pool), as discussed further in Note 4.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

Presented below is the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>
State Investment Pool (PRIT)*	\$ 337,432,221
Pooled Real Estate Funds	14,506,217
Pooled Alternative Investments	<u>1,042,123</u>
Total investments	<u>\$ 352,980,561</u>

* Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have policies for custodial credit risk.

The System's investments total \$352,980,561; of this, \$15,548,340 were exposed to custodial credit risk as uninsured and uncollateralized. Investments in the State investment pool (PRIT) are not subject to custodial credit risk as investments in external investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System does not have an investment in any one issuer greater than 5% of total investments, other than PRIT.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have formal investment policies limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have policies for foreign currency risk.

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs represent quoted prices in active markets for identical assets; Level 2 inputs represent significant other observable inputs; Level 3 inputs represent significant unobservable inputs.

The System has the following fair value measurements as of December 31, 2017:

<u>Description</u>				
Investments measured at the net asset value (NAV):				
State Investment Pool (PRIT)	\$	337,432,221		
Pooled Investments		<u>15,548,340</u>		
Total	\$	<u>352,980,561</u>		

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
State Investment Pool (PRIT)	\$ 337,432,221	\$ -	Quarterly	30 days
Ascent Venture Partners III, LP	133,147	-	Not Eligible	N/A
Ascent Venture Partners IV, LP	362,563	-	Not Eligible	N/A
Blackrock US Core Property Fund, LP	14,057,015	-	Not Eligible	N/A
Hunt Redevelopment and Renovation Fund LLC	449,202	-	Not Eligible	N/A
Vesey Street Fund III, LP	<u>546,413</u>	468,000	Not Eligible	N/A
	<u>\$ 352,980,561</u>			

5. Accounts Receivable

Annually the Public Employee Retirement Administration Commission (PERAC) determines the amount of employer contributions (pension appropriations) to be made to the System. The accounts receivable balance represents legal amounts due from employers for pension appropriation not received until after December 31, 2017.

6. Contingencies

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

7. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2017 and rolled forward to the December 31, 2017 measurement date.

The components of the net pension liability of the participating employers at December 31, 2017 were as follows (in thousands):

A. Net Pension Liability of Employers

Total pension liability	\$ 653,829
Plan fiduciary net position	<u>(356,992)</u>
Employers' net pension liability	<u>\$ 296,837</u>
Plan fiduciary net position as a percentage of total pension liability	54.60%

B. Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation date	January 1, 2017 rolled forward to December 31, 2017
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.40%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not Explicitly Assumed
Post-retirement cost-of-living adjustment	3.00% of the first \$14,000

The actuarial assumptions used in this valuation are the same as those used in the January 1, 2015 valuation except for the investment rate of return assumption being reduced from 7.60% to 7.40%.

Actuarial valuations of the ongoing System involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on pre-retirement rates that reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

C. Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2017 are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	40.00%	4.91%
Hedge Funds & Portfolio Completion	13.00%	3.40%
Fixed Income	12.00%	0.71%
Private Equity	11.00%	6.50%
Value-Added Fixed Income	10.00%	3.64%
Real Estate	10.00%	3.70%
Timber / Natural Resources	4.00%	3.25%
Total	<u>100.00%</u>	

D. Discount Rate

The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.40%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.40%) or one percentage-point higher (8.40%) than the current rate (in thousands):

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
Participating employers' net pension liability	\$ 370,683	\$ 296,837	\$ 234,336

F. Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2017 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (6,370)
Changes of assumptions	18,327	-
Net difference between projected and actual investment earnings on pension plan investments	-	(13,225)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,190	(2,190)
Total	\$ <u>20,517</u>	\$ <u>(21,785)</u>

The following summarizes collective changes in deferred outflows/inflows, (in thousands):

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred Outflows of Resources						
Changes of assumptions	2015	4.7	\$ 13,845	\$ -	\$ (5,128)	\$ 8,717
	2017	4.6	-	12,280	(2,670)	9,610
Changes in proportion and differences between employer contributions and proportionate share of contributions	2015	4.7	941	-	(348)	593
	2016	4.7	367	-	(100)	267
	2017	4.6	-	1,699	(369)	1,330
Total Deferred Outflows of Resources			15,153	13,979	(8,615)	20,517
Deferred (Inflows) of Resources						
Differences between expected and actual experience	2015	4.7	(1,120)	-	415	(705)
	2017	4.6	-	(7,239)	1,574	(5,665)
Net difference between projected and actual investment earnings on pension plan investments	2014	5	233	-	(116)	117
	2015	5	10,720	-	(3,573)	7,147
	2016	5	1,186	-	(297)	889
	2017	4.6	-	(26,723)	5,345	(21,378)
Changes in proportion and differences between employer contributions and proportionate share of contributions	2015	4.7	(941)	-	348	(593)
	2016	4.7	(367)	-	100	(267)
	2017	4.6	-	(1,699)	369	(1,330)
Total Deferred (Inflows) of Resources			9,711	(35,661)	4,165	(21,785)
Total Collective Deferred Outflows (Inflows) of Resources			\$ 24,864	\$ (21,682)	\$ (4,450)	\$ (1,268)

The following schedule reflects the amortization of the balance of deferred outflows/(inflows) of resources (in thousands):

Fiscal year	City of Lynn	Lynn Housing Authority	Lynn Water & Sewer Commission	Total
2019	\$ 3,433	\$ 861	\$ 117	\$ 4,411
2020	2,151	656	74	2,881
2021	(3,773)	(44)	(174)	(3,991)
2022	(4,342)	(34)	(193)	(4,569)
	\$ (2,531)	\$ 1,439	\$ (176)	\$ (1,268)

LYNN CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 11,802	\$ 11,581	\$ 11,082	\$ 10,537
Interest on unfunded liability - time value of money	46,017	45,675	42,598	42,060
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(7,239)	-	(1,950)	-
Changes of assumptions	12,280	-	24,100	-
Benefit payments, including refunds of member contributions	<u>(38,161)</u>	<u>(35,068)</u>	<u>(36,621)</u>	<u>(34,069)</u>
Net change in total pension liability	24,699	22,188	39,209	18,528
Total pension liability - beginning	<u>629,130</u>	<u>606,942</u>	<u>567,733</u>	<u>549,205</u>
Total pension liability - ending (a)	<u><u>\$ 653,829</u></u>	<u><u>\$ 629,130</u></u>	<u><u>\$ 606,942</u></u>	<u><u>\$ 567,733</u></u>
Plan fiduciary net position				
Contributions - employer	\$ 32,056	\$ 30,824	\$ 29,642	\$ 28,433
Contributions - member	7,561	7,465	7,048	6,829
Net investment income	49,436	20,151	3,403	19,567
Benefit payments, including refunds of member contributions	(38,161)	(35,068)	(36,621)	(34,069)
Administrative expense	(219)	(260)	(302)	(386)
Other	<u>6</u>	<u>44</u>	<u>17</u>	<u>14</u>
Net change in plan fiduciary net position	50,679	23,156	3,187	20,388
Plan fiduciary net position - beginning	<u>306,313</u>	<u>283,157</u>	<u>279,970</u>	<u>259,582</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 356,992</u></u>	<u><u>\$ 306,313</u></u>	<u><u>\$ 283,157</u></u>	<u><u>\$ 279,970</u></u>
Net pension liability (asset) - ending (a-b)	<u><u>\$ 296,837</u></u>	<u><u>\$ 322,817</u></u>	<u><u>\$ 323,785</u></u>	<u><u>\$ 287,763</u></u>

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

LYNN CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULES OF NET PENSION LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS

(Unaudited)

Schedule of Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 653,829	\$ 629,130	\$ 606,942	\$ 567,733
Plan fiduciary net position	<u>(356,992)</u>	<u>(306,313)</u>	<u>(283,157)</u>	<u>(279,970)</u>
Net pension liability	<u>\$ 296,837</u>	<u>\$ 322,817</u>	<u>\$ 323,785</u>	<u>\$ 287,763</u>
Plan fiduciary net position as a percentage of the total pension liability	54.60%	48.69%	46.65%	49.31%
Covered payroll	\$ 75,760	\$ 73,460	\$ 73,460	\$ 69,791
Participating employer net pension liability (asset) as a percentage of covered payroll	391.81%	439.45%	440.76%	412.32%

Schedule of Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution*	\$ 30,839	\$ 29,609	\$ 28,423	\$ 27,293
Contributions in relation to the actuarially determined contribution*	<u>(30,839)</u>	<u>(29,609)</u>	<u>(28,423)</u>	<u>(27,293)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 75,760	\$ 73,460	\$ 73,460	\$ 69,791
Contributions as a percentage of covered payroll	40.71%	40.31%	38.69%	39.11%

Schedule of Investment Returns

Year Ended December 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	16.71%	7.51%	0.75%	7.45%

* Amounts exclude early retirement incentive.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Independent Auditors' Report

To the Honorable Lynn Contributory Retirement Board
Lynn Contributory Retirement System
City of Lynn, Massachusetts

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Lynn Contributory Retirement System as of and for the year ended December 31, 2017. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2017.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations

and specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

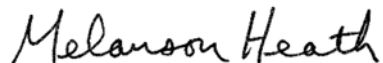
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Lynn Contributory Retirement System as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Lynn Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2017 and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive, flowing style.

October 18, 2018

LYNN CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER ALLOCATIONS

<u>Employer</u>	FY 2018 / CY 2017	
	Actual Employer Contributions	Employer Allocation Percentage
City of Lynn	\$ 27,100,938	87.88%
Lynn Housing Authority	2,050,765	6.65%
Lynn Water & Sewer Commission	<u>1,686,870</u>	<u>5.47%</u>
Total	\$ 30,838,573	<u>100.00%</u>
Total ERI	<u>1,127,672</u>	
Total	<u>\$ 31,966,245</u>	

See actuarial assumptions in the Lynn Contributory Retirement System audited financial statements.

LYNN CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

(in thousands)

Entity	Deferred Outflows of Resources						Deferred Inflows of Resources					Pension Expense		
	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer	Total Employer Pension Expense
City of Lynn	\$ 260,860	\$ -	\$ -	\$ 16,106	\$ 269	\$ 16,375	\$ (5,598)	\$ (11,623)	\$ -	\$ (1,685)	\$ (18,906)	\$ 28,304	\$ (540)	\$ 27,764
Lynn Housing Authority	19,740	-	-	1,219	1,548	2,767	(424)	(879)	-	(25)	(1,328)	2,142	648	2,790
Lynn Water & Sewer Commission	16,237	-	-	1,002	373	1,375	(348)	(723)	-	(480)	(1,551)	1,762	(108)	1,654
Total for All Entities	<u>\$ 296,837</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,327</u>	<u>\$ 2,190</u>	<u>\$ 20,517</u>	<u>\$ (6,370)</u>	<u>\$ (13,225)</u>	<u>\$ -</u>	<u>\$ (2,190)</u>	<u>\$ (21,785)</u>	<u>\$ 32,208</u>	<u>\$ -</u>	<u>\$ 32,208</u>

See actuarial assumptions in the Lynn Contributory Retirement System financial statements.